


DEPARTMENT OF TRANSPORTATION

AUDITS AND INVESTIGATIONS

1000 STREET, Suite 200
P.O. BOX 942874
SACRAMENTO, CA 94274-0001
PHONE (916) 323-7111
FAX (916) 323-7123
TTY: 711

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October 31, 2008

Mr. Gary Antone, P.E., P.L.S.
Director of Public Works
County of Tehama
9380 San Benito Avenue
Gerber, CA 96035

Re: County of Tehama – Department of Public Works
Audit of Indirect Cost Rate Proposal for FY 2008/2009
File No: P1190-0693

Dear Mr. Antone:

We have audited the County of Tehama – Department of Public Works (DPW) Indirect Cost Rate Proposal (ICRP) for the fiscal year ended June 30, 2009 to determine whether the ICRP is presented in accordance with Title 2, Part 225 of the Code of Federal Regulations (2 CFR 225 formerly the Office of Management and Budget (OMB) A-87) and the Department of Transportation's Local Programs Procedures (LPP) 04-10. DPW's management is responsible for the fair presentation of the ICRP. DPW proposed an indirect cost rate of 74.50% of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of DPW. Therefore, we did not audit and are not expressing an opinion on DPW's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICRP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by DPW, as well as evaluating the overall presentation.

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The accompanying ICRP was prepared on a basis of accounting practices prescribed in the OMB Circular A-87 and the Department of Transportation's (Department) LPP 04-10, and is not intended to present the results of operations of DPW in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICRP, a review of DPW's Independent Audit Report for the fiscal year ended June 30, 2007, inquiries of DPW's personnel and reliance placed on the single audit report for the fiscal year ended June 30, 2007 and prior field audit work performed by the Department on December 19, 2005. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

AUDIT RESULTS

Based on audit work performed, DPW's ICRP for the fiscal year ended June 30, 2009 is presented in accordance with 2 CFR 225 and LPP 04-10. The approved indirect cost rate is 74.50% of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

This report is intended solely for the information of DPW, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Rate Proposal for your files. Copies were sent to the Department's District 2, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Lisa Morerno, Auditor, (916) 323-7885 or Amada Maenpaa, Audit Supervisor, at (916) 323-7868.


MARYANN CAMPBELL-SMITH
Chief, External Audits

Attachments

- c: Mark Moses, Assistant Director, Tehama County -- DPW
- Brenda Bryant, FHWA
- Gary Buckhammer, Accounting HQ
- John Pederson, District 2
- File copy: P1190-0693

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**Indirect Cost Plan
County of Tehama – Department of Public Works**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Department), subject to the conditions in Section II. This plan was prepared by the County of Tehama, Department of Public Works and approved by the Department.

SECTION 1: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed with carry forward	7/01/08 to 6/30/09	74.50%	All Programs

* Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rate in this Agreement is subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rate is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rate is not later found to be materially incomplete or inaccurate by the Federal Government or the Department. In such situations the rate would be subject to renegotiation at the discretion of the Federal Government or the Department; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audited financial statements -any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

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D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by the Department has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate of Calculation:

FY 2009 Estimated Indirect Costs	\$2,045,296
Carry Forward from FY 2007	<u>\$ 398,580</u>
Adjusted FY 2009 Indirect Costs	\$2,443,876
FY 2009 Budgeted Direct Salaries and Wages plus Fringe Benefits	\$3,280,154
FY 2009 Indirect Cost Rate	74.50%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2009 (July 1, 2008 to June 30, 2009) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

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(2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and the Department will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct.

Governmental Unit: County of Tehama, Department of Public Works

Signature: [Signature]

Signature: [Signature]

Reviewed, Approved and Submitted by:

Prepared by:

Name of Official: Gary Antone

Name of Official: Mark Moses

Title: Director of Public Works

Title: Assistant Director of Public Works

Date of Execution: 5-29-08

Telephone No.: (530) 385-1462

INDIRECT COST RATE APPROVAL

The Department has reviewed this indirect cost plan and hereby approves the plan.

Signature: [Signature]

Signature: [Signature]

Reviewed and Approved by:

Reviewed and Approved by:

Name of Audit Manager: Mary Ann Campbell-Smith

Name of Auditor: Lisa Moreno

Title: Chief, External Audits

Title: Associate Management Auditor

Date: 10/31/08

Date: 10/31/08

Phone Number: (916) 323-7111

Phone Number: (916) 323-7885

Tehama County Public Works
FY 2009 Estimate (July 1, 2008 to June 30, 2009)

APPROVED IC RATE	FY2006	FY2007	FY2008	FY2009
	68.00%	66.50%	62.00%	74.50%
INDIRECT CARRY FORWARD				
Carry Forward				
**Indirect Costs from Carry Forward	\$ 443,268.12	\$ 376,388.91	NA	\$ 398,579.66
Total Indirect Costs	\$ 2,123,105.54	\$ 2,249,598.77		\$ 2,045,296.50
Recovered Costs				\$ 2,443,876.16
Direct Salaries & Wages + Fringe Benefits	\$ 2,815,122.70	\$ 2,783,487.40		\$ 3,280,153.50
Approved Rate	68.00%	66.50%		
Total Recovered Indirect Costs	\$ 1,914,283.44	\$ 1,851,019.12		
Indirect Carry Forward	\$ 208,822.10	\$ 398,579.66		
**DIRECT SALARIES & WAGES + FRINGE BENEFITS (Per Single Audit)				
General Fund - S&W + FB				
Total Direct Salaries & Wages + Benefits	\$ 2,815,122.70	\$ 2,783,487.40		

**An annual single audit is not required for the Road Fund.

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Tulsa County Public Works
FY 2009 Estimate (July 1, 2008 to June 30, 2009)

	Direct Costs	Indirect Costs	Unallowed Costs	Total Budget
Salaries	\$ 2,179,860.00	\$ 912,140.00	\$ -	\$ 3,092,000.00
Fringe Benefits	\$ 1,100,293.50	\$ 460,406.50	\$ -	\$ 1,560,700.00
Total	\$ 3,280,153.50	\$ 1,372,546.50	\$ -	\$ 4,652,700.00
DIRECT COSTS	\$ 10,956,559.00			\$ 10,956,559.00
INDIRECT COSTS				
Clothing		\$ 11,800.00	\$ -	\$ 11,800.00
Communications		\$ 18,400.00	\$ -	\$ 18,400.00
Household Expense		\$ 17,100.00	\$ -	\$ 17,100.00
Insurance (Rd Liab)		\$ 225,800.00	\$ -	\$ 225,800.00
Equipment Maint		\$ 43,000.00	\$ -	\$ 43,000.00
Structural Maint		\$ 19,900.00	\$ -	\$ 19,900.00
Medical/Lab Supplies		\$ 950.00	\$ -	\$ 950.00
Memberships/Dues		\$ 3,500.00	\$ -	\$ 3,500.00
Office Expense		\$ 27,650.00	\$ -	\$ 27,650.00
Professional & Special		\$ 58,000.00	\$ -	\$ 58,000.00
A-87 (County Distro)		\$ 109,750.00	\$ -	\$ 109,750.00
Advertising		\$ 1,300.00	\$ -	\$ 1,300.00
Rent/Lease - Equip		\$ 3,350.00	\$ -	\$ 3,350.00
Rent/Lease - Bldgs		\$ -	\$ -	\$ -
Small Tools		\$ 20,500.00	\$ -	\$ 20,500.00
Special Dept. Expense		\$ 36,350.00	\$ -	\$ 36,350.00
Travel		\$ 14,650.00	\$ -	\$ 14,650.00
Utilities		\$ 58,650.00	\$ -	\$ 58,650.00
Taxes & Assessments		\$ 400.00	\$ -	\$ 400.00
Subtotal	\$ 10,956,559.00	\$ 671,050.00	\$ -	\$ 11,627,609.00
TOTAL BUDGET	\$ 14,236,712.50	\$ 2,043,596.50		\$ 16,280,309.00
Depreciation		\$ 1,700.00		
Total Indirect Costs		\$ 2,045,296.50		

\$ 11,627,609.00

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	Direct	Indirect	Total	Indirect Percentage
FY 02/03	\$ 2,656,831.17	\$ 1,201,069.85	\$ 3,857,901.02	31.13%
FY 03/04	\$ 2,694,775.30	\$ 1,156,622.00	\$ 3,851,397.30	30.03%
FY 04/05	\$ 2,674,423.65	\$ 1,088,703.31	\$ 3,763,126.96	28.93%
FY 05/06	\$ 2,815,122.70	\$ 1,120,791.74	\$ 3,935,914.44	28.48%
FY 06/07	\$ 2,783,487.40	\$ 1,223,562.75	\$ 4,007,050.15	30.54%
FY 07/08			\$ -	#DIV/0!
Total	\$ 13,624,640.22	\$ 5,790,749.65	\$ 19,415,389.87	29.83%
				Indirect Percentage: 29.50%
				Direct Percentage: 70.50%

<u>FY 2007 Adjusted Indirect Cost Detail</u>		<u>Total Direct Labor</u>	
Indirect Labor	\$ 1,224,196.81	\$ 2,785,002.68	
Add underapplied Labor @ Indirect %	\$ (634.06)	\$ (1,515.28)	<u>Total Labor</u>
Less overapplied Labor @ Indirect %	\$ -	\$ -	<u>Auditor's Report</u>
Total Indirect Labor	\$ 1,223,562.75	\$ 2,783,487.40	\$ 4,007,050.15
Indirect Services and Supplies	\$ 649,647.11		
Total Indirect Labor, Serv and Supp	\$ 1,873,209.86		\$ 4,007,050.15
Adjustments:			
Add	\$ -	Difference	\$ -
Less	\$ -		

Adjusted Indirect Costs \$ 1,873,209.86

FY 2009 Labor Estimate **\$ 4,652,700.00**

Salaries:

Regular Salaries:	\$ 2,972,000.00
Non-Benefited:	\$ -
Miscellaneous:	\$ -
Extra Help:	\$ 60,000.00
Overtime:	\$ 60,000.00
Total Salaries:	\$ 3,092,000.00

Benefits:

Employer Cont:	\$ 306,000.00
Cont for Employee:	\$ 199,000.00
OASDI:	\$ 236,000.00
Health Insurance:	\$ 687,000.00
Unemployment:	\$ 7,700.00
Worker Comp:	\$ 125,000.00
Total Benefits:	\$ 1,560,700.00